

**Legislative Bulletin.....May 20, 2004**

**Contents:**

**H.R. 4359—Child Credit Preservation and Expansion Act**

**Summary of the Bills Under Consideration Today:**

*Year to Date figures Do NOT include pending DOD Authorization Bill.*

Total Number of New Government Programs: 0

*Year to Date Prior to Today's Bills: 17*

Total Cost of Discretionary Authorizations: \$0

*Year to Date Prior to Today's Bills: At least \$205.35 billion<sup>#</sup> over five years*

Total Amount of Revenue Reductions: \$28.5 billion over five years

*Year to Date Prior to Today's Bills: \$67.5 billion over five years*

Total Change in Mandatory Spending: \$13.8 billion over five years

*Year to Date Prior to Today's Bills: -\$3.9 billion over five years*

Total New State & Local Government Mandates: 0

*Year to Date Prior to Today's Bills: 15<sup>#</sup>*

Total New Private Sector Mandates: 0

*Year to Date Prior to Today's Bills: 12*

**H.R. 4359—Child Credit Preservation and Expansion Act (Porter)**

**Order of Business:** The bill is scheduled to be considered on Thursday, May 20<sup>th</sup>, subject to a modified closed rule (H.Res. 644). The rule would make in order one amendment in the nature of a substitute, as summarized below.

**Summary:** H.R. 4359 would *permanently* set the child tax credit at \$1,000 per qualifying child.

Under current law, the allowable child tax credit is reduced (but not below zero) by \$50 for each \$1,000 (or fraction thereof) by which the taxpayer's modified adjusted gross income

exceeds the threshold amount. The threshold amounts are presently set at \$110,000 for joint returns, \$75,000 for unmarried individuals, and \$55,000 for married individuals filing separately. H.R. 4359 would permanently re-set the threshold amounts at \$125,000 for individuals and \$250,000 for joint returns.

This legislation would also accelerate (from 2005 to 2004) and make permanent the increase in the refundable portion of the tax credit. Combat pay that is otherwise excludable would be included in determining whether the taxpayer meets the \$10,000 earned income threshold for the refundable credit.

Without legislative action, the child tax credit would decrease from \$1,000 to \$700 in 2005, rise again to \$1,000 by 2010, and decrease permanently to \$500 in 2011. [This tax credit schedule was first created by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16).]

**Additional Background:** In order to comply with reconciliation procedures under the Congressional Budget Act of 1974 (i.e. section 313 of the Budget Act, under which a point of order may be lodged in the Senate), the original Bush tax-cut bill (Public Law 107-16) included a “sunset” provision, under which the law and all the tax-cut provisions in it expire at the end of 2010.

To see the other impending tax increases that will *automatically* occur without legislative action, visit this RSC webpage:

<http://johnshadegg.house.gov/rsc/Impending%20Tax%20Increases--Feb%202004.pdf>

**Amendment Made in Order under the Rule (H.Res. 644):**

Rangel: Retains the provisions of the underlying bill except for the increase in the threshold at which the child tax credit is phased out. Also:

- **Increases individual income taxes** by 2.75% of the adjusted gross income that exceeds \$1 million for joint filers and \$500,000 for single filers (for tax-years 2005-2010);
- Conditions **all extensions** of tax cuts and other tax provisions in the first Bush tax-cut bill (the Economic Growth and Tax Relief Reconciliation Act of 2001—Public Law 107-16) on the enactment of “comprehensive Federal budget legislation” before September 1, 2010 that would:
  - result in a balanced federal budget by fiscal year 2014 (as certified by the Office of Management and Budget—OMB);
  - not factor in the receipts and disbursements of the Social Security and Medicare Trust Funds to achieve budget balance; and
  - substantially reduce the United States’ reliance on foreign central bank purchases of its debt obligations;
- Adjusts the inflation adjustment of the child tax credit.

**Committee Action:** On May 13, 2004, the bill was referred to the Ways & Means Committee, but the Committee took no official action on it.

**Administration Position:** The Administration supports this legislation and included similar provisions in its FY2005 budget request.

**Savings to Taxpayers:** The House Budget Committee reports that the President's Budget for fiscal year 2005 includes a similar – though not identical – proposal. The Joint Committee on Taxation estimates that the President's proposal would have no budget effect in fiscal year 2004; would reduce revenue by \$28.5 billion over fiscal years 2004-08; and would increase outlays by \$13.765 billion over fiscal years 2004-08. For purposes of the budget resolution conference report expected to be agreed to for fiscal year 2005, the applicable enforcement periods would be as follows: the bill would reduce revenue by \$2.638 billion in fiscal year 2005, and by approximately \$36.5 billion over fiscal years 2005-09; and would increase outlays by approximately \$18.22 billion over 2005-09.

The Budget Committee also reports the following:

It is uncertain whether a conference report on the budget resolution for fiscal year 2005 – which will govern budget enforcement of bills brought to the floor – will be completed and agreed to before H.R. 4359 is considered. Until then, the budget resolution for fiscal year 2004 remains in force. Because H.R. 4359 is not a committee-reported bill, Budget Act points of order do not apply. Had the Ways and Means Committee reported this bill, it likely would violate the Budget Act: the Ways and Means Committee has only \$576 million in budget authority remaining in its allocation for fiscal years 2004-08, whereas the President's similar proposal would increase outlays by \$13.765 billion over this period. In addition, the bill first causes spending to increase in fiscal year 2005, in violation of section 303 of the Budget Act. This section prohibits reported bills from causing spending increases or decreases that first becoming effective in a year for which a budget resolution has not been adopted.

It must be noted that the fiscal year 2005 budget resolution will likely assume the extension of this tax credit, and were that to be agreed to first, this legislation would likely be in compliance with that resolution.

**Does the Bill Create New Federal Programs or Rules?:** The bill would expand and make permanent certain provisions in current tax law set to fluctuate beginning in 2005.

**Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?:** No.

**Constitutional Authority:** Though a committee report citing constitutional authority in unavailable, Article I, Section 8, Clause 1 grants Congress the power to “lay and collect Taxes, Duties, Imposts and Excises...,” and the 16<sup>th</sup> Amendment grants Congress the power to “lay and collect taxes on incomes, from whatever source derived,....”

**Outside Organizations:** All known conservative organizations are supporting this legislation. Americans for Tax Reform has indicated that it *may* include H.R. 4359 in its annual congressional ratings.

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